

Washington State Linked Deposit Program
Performance Measures and Data Collection Plan
Pursuant to the Sunset Law Requirements

Attached are the Performance Measurements, Data Collection Plan, and accompanying cover letter for the front-end sunset review of the Linked Deposit Program that is being jointly submitted by the Office of the State Treasurer (OST); Department of Community, Trade and Economic Development (CTED); and the Office of Minority and Women's Business Enterprises (OMWBE).

The Linked Deposit Program's (LDP) sunset was extended through June 30, 2008 by the Legislature in the 2002 Session. In accordance with SHB 2456, Sections 3 and 4, the Office of the State Treasurer, the Department of Community, Trade and Economic Development, and the Office of Minority and Women Business Enterprises are the administering agencies for the Linked Deposit Program. They are required to develop new performance measures and a data collection plan. (RCW 43.63A.690) In order to establish a basis for the program's sunset review, the Joint Legislative Audit Review Committee (JLARC) is required to conduct a front-end review of the performance measures developed.

Overview of the Sunset Entity

The Washington State Linked Deposit Program, established by the 1993 Minority and Women-Owned Business Assistance Act, directs the State Treasurer to operate a program which links the deposit of state funds to loans made by financial institutions to qualified minority and women-owned businesses.

The State's funds are used to encourage banks to lend private funds to these businesses. The program is authorized to invest up to \$50 million of the State's surplus funds. The banks in turn make loans to *Washington State OMWBE certified* minority and women-owned businesses (MWBE). The deposit of state funds with a bank is done by purchasing a certificate of deposit (CD) in an amount equal to the dollar amount of the loan made to a MWBE. The CD may have a term up to five years.

The program is designed to give the banks flexibility to tailor loans to individual business needs. The individual financial institutions make loan eligibility decisions. The interest rate charged to the minority or women-owned businesses receiving the loan are two percentage points below the market interest rate. The reduced rate on the invested CD is used to offset the two percent interest rate reduction afforded to the loan made to a MWBE.

Pursuant to its enabling legislation, the LDP is scheduled to terminate under the Sunset Act in 2008, with a JLARC sunset review required in 2007.

Legislative Intent

Minority and women-owned businesses have historically been excluded from access to capital. This lack of capital has been a major barrier to the development and expansion of minority and women-owned businesses.

The Legislature articulated its purpose in establishing the Linked Deposit Program as:

RCW 43.86A.060 – It is the intent of the Legislature to remedy the problem of a lack of access to capital by minority and women's business enterprises, and other small businesses by authorizing the state treasurer to operate a program that links state deposits to business loans by financial institutions to minority and women's business enterprises.

RCW 43.86A.030 – The State Treasurer is authorized to use up to \$50 million of state treasury surplus funds for the Linked Deposit Program.

Agency Roles

Office of the State Treasurer (OST) has the fiduciary responsibility for ensuring that funds are properly managed and transferred to participating banks in accordance with laws and policies. The OST disburses and receives funds, matching certificate of deposits with participating banks with the outstanding loan amounts and tracking bank information (Exhibit A). The OST maintains the “wait list” for enrollment of firms in the program when the program operates at its monetary cap.

Department of Community, Trade, and Economic Development (CTED) provides technical assistance and loan packaging services, information, referrals, and markets the program in accordance with RCW 43.63A.690. CTED is also responsible for monitoring the performance of loans and analyzing the program data. In consultation with the Office of Minority and Women’s Business Enterprises, CTED shall develop indicators to measure the performance of the program in the areas of job creation or retention and access to capital.

Office of Minority and Women's Business Enterprises (OMWBE) provides OST and CTED and banks written verification of loan applicant's MWBE certification status prior to loan approval. OMWBE informs OST and CTED when a program participant is no longer certified. In accordance with RCW 39.19.240, OMWBE maintains the database of minority and woman owned businesses that have received funding through the Linked Deposit Program and provides OST and CTED data collected from the loan tracking form. OMWBE provides information about the program to firms and banks.

Program Participation

Participation in the LDP is available to all state certified MWBEs and is open to any qualified public depository in the state of Washington. Provided that state funds are available for the certificate of deposit, there is no limit on the number of loans or the amount a qualified business may borrow. Types of qualifying loans include commercial financing; e.g., lines of credit, financing of accounts receivable, working capital, equipment purchases, and real property acquisition. Banks have the flexibility to tailor loans to individual business needs.

Operating Procedures

A business must provide the bank with a copy of the OMWBE documentation indicating their certification number. Banks in turn submit a tracking report to OMWBE to initiate enrollment of a loan into the program. Banks report certificate of deposit adjustments on a monthly basis to the OST.

Performance Measures

The following indicators reflect the key activities performed by OST, CTED and/or OMWBE relative to the LDP and are designed to track performance measures. One or more of the administering agencies clearly has measurable influence over certain, but not all of the identified outcomes. Where possible, the indicators reflect input from the agencies’ operating environment(s).

Input Measures

1. Number of staff per agency
2. Budget allocation per agency

Output Measures (see Table 1)

1. Total number of loans/proportion of total number of certified firms
2. Total dollar amount of all loans
3. Number/percentage and location of participating banks to total number of banks in Washington

4. Total number of firms by size and primary business activity
5. Loan data by certification status (MBE, WBE, MWBE, CBE)
6. Average/median dollar per loan
7. Loan data by dollar amount ranges
8. Profile of "wait list"
9. Number of program outreach presentations per staff of each agency
10. Purpose of loans (e.g., line of credit, equipment, land acquisition, building construction)
11. Number of people employed by firms participating in program

Outcome Measures (see Table 2)

The key performance measures on which the program's effectiveness will be evaluated in the future include:

1. 100% of loans received 2% interest rate reduction at time of funds disbursement.
2. 100% of borrowing firms are certified at time of loan disbursement and remain certified until the loan is repaid.
3. Loan default rate.
4. 100% of decertified firms are removed from the program and funds are returned to OST.
5. Number of jobs created elsewhere in the economy for every employee within firms participating in the program.
6. Number of jobs created or retained within LDP loan recipients for every \$25,000 loaned
7. Number of loans that would not have been approved by the lending institutions in the absence of the program**

**Applicable statutes do not require participating banks to submit data pertaining to loan decisions. Statute also does not require the administering agencies to collect loan decision data from LDP participating banks or recipient firms. Any data collected for this output measure is provided voluntarily by the participating banks or recipient firms.

Data Collection Plan

Table 1
Output Measures

Measure	Key Data	Maintained/ Collected by	Timing	Method of Collection
1. Total number of loans/proportion of total number of certified firms	Individual loan info, certification status	OMWBE, CTED	Per Loan	Tracking Report, OMWBE database
2. Total dollar amount of all loans	Individual loan amount info	OMWBE, CTED	Per Loan	Tracking Report
3. Number/percentage and location of participating banks to total number of banks in Washington	Participating bank info, non-participating bank info	OST	Continuous	Participating bank LDP registration, DFI roster of WA banks
4. Total number of firms by size and primary business activity	Employment & revenue data per firm, NAICS codes	OMWBE	Continuous	OMWBE database
5. Loan data by certification status (MBE, WBE, MWBE, CBE)	Certification status, individual loan info	OMWBE	Continuous	Tracking Report, OMWBE database
6. Average/median dollar per loan	Individual loan info, aggregated loan info	OMWBE, CTED	Continuous	Tracking report, OMWBE database, LDP database
7. Loan data by dollar amount ranges	Individual & aggregate loan info	OMWBE, CTED	Continuous	Tracking report, LDP database
8. Profile of "wait list"	Length of wait, amount and number of loans, number of firms	OST	Continuous	Tracking report, OST wait list
9. Number of program outreach presentations per staff of each agency	Program presentations	OMWBE, CTED	Annual	Agency presentations
10. Purpose of loans (e.g., line of credit, equipment, land acquisition, construction)	Stated "purpose of loan" for each LDP loan	OMWBE, CTED	Continuous	Tracking report
11. Number of people employed by firms participating in program	Number of employees within LDP recipient firms	OMWBE, CTED	Continuous	OMWBE database

Table 2
Outcome Measures

Measure	Key Data	Maintained/ Collected by	Timing	Method of Collection
1. 100% of firms received 2% interest rate reduction at time of funds dispersal	Fund balance, OST wait list	OST	Continuous	Monthly Certification Form
2. 100% of borrowing firms are certified at time of loan dispersal and remain certified until loan is repaid	Individual loan info, OMWBE certification status	OMWBE	Continuous	OMWBE database
3. Loan default rate	Individual loan info	OST	Continuous	Monthly Certification Form
4. 100% of decertified firms are removed from the program and funds are returned to OST	OMWBE certification status, individual loan info, CD amounts	OMWBE, OST	Continuous	OMWBE database, Monthly Certification Form
5. Number of jobs created elsewhere in the economy for every employee within firms participating in the program	Firm employment info, Employment Security LMEA economic sector employment data*	CTED, OMWBE	Annual	OMWBE database, Tracking Report, LMEA employment input/output model*
6. Number of jobs created or retained within LDP loan recipients for every \$25,000 loaned	Individual loan info, employment data of recipient firms	CTED, OMWBE	Annual	LDP database, OMWBE database, Tracking Report
7. Number of loans that would not have been approved by the lending institutions in the absence of the program**	Loan decision info**	OMWBE, CTED	Continuous	Tracking Report**

*Labor Market and Economic Analysis system of the Employment Security Department. The system provides an economy-wide econometric model of job creation impact based on employment data of selected firms, in this case LDP firms, and downstream industry group-specific multipliers. The system estimates the indirect job creation impact of the program on an economy-wide scale.

**Applicable statutes do not require participating banks to submit data pertaining to loan decisions. Statute also does not require the administering agencies to collect loan decision data from LDP participating banks or recipient firms. Any data collected for this output measure is provided voluntarily by the participating banks or recipient firms.

Three forms are used to implement the data collection and tracking plan:

- Loan Application Tracking Report
- Certification Verification Report
- Monthly Certification Form

Loan Application Tracking Report

1. At loan signing, a tracking report is completed. Originating with the lender, one form is required per loan.
2. The lender and borrower complete separate sections of the form.
3. The form is sent by FAX to OMWBE.
4. OMWBE verifies certification and forwards the approved form to OST for notification of new loan reservations and CTED for monitoring purposes.

Key Information Obtained:

- Name of borrower and bank
- Value and type of loan approved
- Interest rate
- Prime rate
- Certification verification
- Tracking information

Linked Deposit Certification Verification Report

Upon receipt of the tracking report from the lender, OMWBE verifies the certification status of the borrower. Upon verification of the borrower's certification status, copies of the verification report are faxed to OST, CTED, and back to the lender along with the loan application tracking report. In the event a borrower is not certified, OMWBE is authorized to deny the borrower access to the program.

Key Information Obtained:

- Borrower certification status
- Certification date
- Certification number
- Business structure
- Primary business activity

Monthly Certification Form

Banks complete the Certification form monthly. The form is faxed or e-mailed directly to OST. The information submitted guarantees that all loans associated with the CD have been made to eligible businesses and are meeting the requirements of the Linked Deposit Program.

Key Information Obtained:

- Principal paid amount during the term of the maturing CD
- New loans and lines of credit amount
- Settlement date
- Interest rate of CD
- Next reset date